



**VALENCE  
INDUSTRIES**

ASIA PACIFIC | EUROPE | NORTH AMERICA

ASX: VXL & VXLO

30 April 2015

# Quarterly Activity Report

For the Quarter Ended 31 March 2015

Graphite producer, Valence Industries Limited (ASX:VXL&VXLO) (**Valence Industries** or the **Company**) is Australia's only graphite production company with the Uley Graphite™ mine in Port Lincoln, South Australia.

Valence Industries strategy is to be a leading global graphite production company and manufacturer of advanced, high-margin graphite related products. This strategy underpins the Company's current operations and its current and future programs for expansion.

## Quarter Highlights

---

- **First Uley Graphite™ new production export shipment to overseas customers**
- **Uley Graphite™ production ramps up as key commissioning milestones achieved**
- **First 1,500 tonnes of run-of-mine stockpiles processed**
- **6 new customer sales contracts for supply of more than 8,000t of graphite**
- **9 new customer qualifications completed in Q1 CY 2015**
- **Confirmation of high-grade graphite mineralisation from Uley Pit 2 JORC 2012 Ore Reserve and through extension with grades ranging from 10% to up to 45%**
- **Negotiations with financiers for four-part expansion program reach advanced stage**
- **Cash at end of Q1 CY 2015 at A\$3.0 million**



# Uley Graphite™ Operations

---

## FLAKE GRAPHITE EXPORTS

During the quarter ended 31 March 2015, Valence Industries exported its first flake graphite following significant progress made in the commissioning phase at the Uley Graphite™ operation in Port Lincoln, South Australia.

On 26 March 2015, the first flake graphite for export to customers was loaded onto trucks at the Uley Graphite™ operation and left Port Lincoln for the Valence Industries' Port Adelaide logistics and handling facility in preparation for export.

Subsequent to the reporting period, on 14 April, the 20t of flake graphite were shipped from Port Adelaide to customers in the Asia Pacific. In accordance with confidentiality obligations, the Company does not disclose the names of customers



*Loading First Graphite Shipment 2015*

## FLAKE GRAPHITE PRODUCTION

The reporting period was the first full quarter of operational commissioning for the Uley Graphite™ operation, which successfully processed the first 1,500t of run-of-mine stockpiled material.

As part of the PEPR requirements notified in late December Valence Industries has been undertaking a redesign of the water management and return systems including the tailings storage facilities at the site. These requirements have not allowed the plant to be run as planned and have limited production. The construction of the redesigned water management and water return systems is now being addressed as a key part of the commissioning program.

The existing facilities are being integrated into the new water management system together with other modifications based on the initial plant operating experience and are not currently processing. The water processing is expected to be operational late June, allowing graphite production rates to be increased in stages up to Q3 CY 2015 and are then programmed to run up to the scheduled full 24/7 targeted rate of 14,000 tonnes per annum (tpa) in line with the Company's current schedule.



# Customers

---

## NEW SALES CONTRACTS

Valence Industries continued to increase its customer numbers, and during the reporting period, secured contracts for volumes equivalent to 100% of graphite to be produced in the first year of production.

In the reporting period, the Company signed six new customer sales contracts for the supply of more than 8,000t of graphite. The contracts are for graphite concentrates across all sizes (+35 to -300 Mesh) and purities (90% to 95%). The new customers are located in Europe and Asia Pacific, and are in the refractory and foundry industries. Shipments against these orders are scheduled to be made during Q2 and Q3 CY 2015.

In addition to these new sales contracts, Valence Industries has four memoranda of understanding for volumes exceeding 29,000tpa over periods ranging from two to three years. Negotiations are ongoing to convert these into sales contracts and this process is being timed to coincide with the ramp up of production. The customers come from a wide range of sectors – heavy industry (refractories, foundries and lubricants) through to advanced technologies (batteries and electronics) as well as bio-medical applications.

Average pricing across the full range of flake graphite products produced by the Uley Graphite™ operation and which will be supplied under the signed MoUs and the existing sales contracts is expected to be ~A\$1,669 per tonne. That average price is determined over a full year of production. The price will fluctuate in any given quarter and is also achieved when the existing processing facilities are commissioned and running at its full production rate.

## QUALIFICATIONS

In the reporting period, nine new customers were qualified. The qualification process is a key part of the sales program, and allows customers to test Valence Industries' graphite - produced in commercial quantities from the Phase I Uley Graphite™ operation - for their own requirements.

The nine new qualified customers will receive flake graphite concentrate from production during 2015. Following a successful qualification process, these nine customers are positioned to be converted into binding sales contracts and receive flake graphite from increased output in 2016. In addition, a further six customers have received production samples of Uley Graphite™ and are currently conducting their internal qualification process. At the end of the reporting period, Valence Industries had 15 customers in the qualification process.

# Exploration

---

During the reporting period, Valence Industries successfully completed the first stage of the extensional drilling campaign at the Uley Graphite™ site. The campaign is focused on the Uley Pit 2 Extension – located immediately south of the planned Uley Pit 2 mining area.

Assays received indicate mineralisation in the extension area is strongly consistent with the Uley Pit 2 Ore Reserve. The results also confirmed the dip, strike continuity and near surface mineralisation of the Uley Graphite™ lodes to the north and south of Uley Pit 2. The results returned significant intersections with very high graphite grades ranging from 10% to up to 45%.

The drill results will be used to update the current JORC Ore Reserve of 2,035,000 tonnes at an average grade of 12.9% graphitic carbon (gC) containing 261,000t of graphite. The first aspect of that update is scheduled to be released mid-May 2015 with two further updates set to follow.



## Outlook

Valence Industries is nearing the final stages of discussions with financiers for its next stage of expansion. This expansion program comprises:

1. Open pit mining of Uley Pit 2 to commence in Q4 CY 2015
2. Expansion of the existing Uley facility to incrementally increase output to 39,000tpa in CY 2016 and then to 64,000tpa in 2018-19
3. Development of a new Advanced Materials Handling Facility located in Adelaide, scheduled for operation in CY 2016
4. Development of a new Advanced Manufacturing Facility to commence in CY 2016

The feasibility study released on 2 January 2015 contemplated a schedule with mining from Uley Pit 2 in late 2015 and for expanded production capacity at the Uley Graphite™ site during early 2016. This program is being refined and expanded production capacity at the Uley Graphite™ site is now scheduled later in 2016 while preparation for new mining from Uley Pit 2 is still being planned to occur later in 2015. Finalisation of the current finance package will allow the Company to progress the detailed engineering, design and construction for the expansion program including for the advanced product handling facilities and the advanced manufacturing facilities near Adelaide. The Company will keep shareholders updated on any material developments.

## Finance and Corporate

### CASH STATEMENT AND CAPITAL MOVEMENTS

Valence Industries had \$3.04 million cash on hand as at 31 March 2015. Expenditure on exploration activities during the quarter amounted to \$597,000.

During the quarter, 5,500,000 unlisted options were issued to Directors as approved by shareholders at a general meeting of the company held on 19 February 2015. Details of the options are included in the attached Appendix 5B.

### TENEMENT LISTING

TENEMENT NUMBER	TENEMENT NAME	BENEFICIAL INTEREST <sup>1</sup>	CHANGES DURING Q1 2015
ML 5561	Uley Graphite Mining Licence 1	100%	No change
ML 5562	Uley Graphite Mining Licence 2	100%	No change
RL 66	Uley Graphite Retention Licence 1	100%	No change
RL 67	Uley Graphite Retention Licence 2	100%	No change
EL 4778	Uley South Exploration Licence	100%	No change

<sup>1</sup> Interests held as at the end of the quarter



---

**Capital Structure**

Shares: 186,681,979

Listed options: 52,199,188

Unlisted options: 25,250,000

**Board of Directors & Officers**

Graham G Spurling, AM (Non-executive Chairman)

Christopher S Darby (Chief Executive Officer &amp; MD)

Glenister Lamont (Non-executive Director)

Ian D Pattison (Non-executive Director)

Ian S Schache (Non-executive Director)

Jaroslaw (Jarek) K Kopias (Company Secretary &amp; CFO)

---

*For further information, please contact:*

Christopher S Darby  
Chief Executive Officer & MD  
Valence Industries

Jaroslaw (Jarek) K Kopias  
CFO & Company Secretary  
Valence Industries

info@valenceindustries.com

+61 8 8215 6400

**Media and Investor Relations**

Rebecca Lawson, Media and Capital Partners

p: +61 433 216 269 e: rebecca.lawson@mcpartners.com.au

**Competent Persons Statement**

Valence Industries confirms that it is not aware of any new information or data that materially affects the information included in this announcement and that all material assumptions and technical parameters underpinning the estimates in this announcement continue to apply and have not materially changed since the announcements previously released as "Valence Doubles Existing ROM Stockpiles" (6/8/14), "Uley Graphite Grade Increases to 11.7%" (17/11/14), "Maiden High Grade Graphite Ore Reserve" (17/12/2014) and "VXL Feasibility Study Expansion and Adv Manufacturing" (2/1/15).

**Forward Looking Statements**

All statements other than statements of historical fact included in this announcement including, without limitation, statements regarding future plans and objectives of Valence Industries Limited (Valence Industries) are forward-looking statements. When used in this announcement, forward-looking statements can be identified by words such as 'may', 'could', 'believes', 'estimates', 'targets', 'expects' or 'intends' and other similar words that involve risks and uncertainties. These statements are based on an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions that, as at the date of this announcement, are expected to take place. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of the company, its directors and management of Valence Industries, that could cause Valence Industries' actual results to differ materially from the results expressed or anticipated in these statements.

Valence Industries cannot and does not give any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this announcement will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements. Valence Industries does not undertake to update or revise forward-looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this announcement, except where required by applicable law.



**Appendix 5B**

**Mining exploration entity and oil and gas exploration entity quarterly report**

*Rule 5.5*

# Appendix 5B

## Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/2013

Name of entity

Valence Industries Limited

ABN

41 008 101 979

Quarter ended ("current quarter")

31 March 2015

### Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (9 months) \$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for		
(a) exploration & evaluation	(597)	(1,470)
(b) development	(900)	(1,192)
(c) production	(1,351)	(2,524)
(d) administration	(1,126)	(2,712)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	-	-
1.5 Interest and other costs of finance paid	42	235
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
	<b>(3,932)</b>	<b>(7,663)</b>
<b>Net Operating Cash Flows</b>		
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(1,347)	(6,282)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
	<b>(1,347)</b>	<b>(6,282)</b>
<b>Net investing cash flows</b>		
1.13 Total operating and investing cash flows (carried forward)	<b>(5,279)</b>	<b>(13,945)</b>



**Appendix 5B**

**Mining exploration entity and oil and gas exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(5,279)	(13,945)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	-	12,785
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	(5)	(15)
1.18	Dividends paid	-	-
1.19	Other (share issue expenses)	-	(930)
	Other (movement in restricted cash – bond)	-	(1,709)
	<b>Net financing cash flows</b>	<b>(5)</b>	<b>10,131</b>
	<b>Net increase (decrease) in cash held</b>	<b>(5,284)</b>	<b>(3,814)</b>
1.20	Cash at beginning of quarter/year to date	8,323	6,853
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	<b>3,039</b>	<b>3,039</b>

Note: Cash balance excludes \$1.709 million held against a bank guarantee for obligations under the approved PEPR for Uley Graphite™ operations which is treated as Restricted Cash in the Company's financial statements.

**Payments to directors of the entity, associates of the directors, related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	147
1.24	Aggregate amount of loans to the parties included in item 1.10	-
1.25	Explanation necessary for an understanding of the transactions	
	Directors' fees, superannuation and consulting fees paid to entities associated with Directors.	

**Non-cash financing and investing activities**

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Nil

- 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Nil



**Appendix 5B**  
**Mining exploration entity and oil and gas exploration entity quarterly report**

**Financing facilities available**

*Add notes as necessary for an understanding of the position.*

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

**Estimated cash outflows for next quarter**

	\$A'000
4.1 Exploration and evaluation	400
4.2 Development / PP&E	1,400
4.3 Production	1,500
4.4 Administration	900
<b>Total</b>	<b>4,200</b>

**Reconciliation of cash**

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	3,039	1,147
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other 30 to 90 day term deposits	-	7,176
<b>Total: cash at end of quarter (item 1.22)</b>	<b>3,039</b>	<b>8,323</b>

**Changes in interests in mining tenements and petroleum tenements**

	Tenement reference and location	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements and petroleum tenements relinquished, reduced or lapsed	Not applicable		
6.2	Interests in mining tenements and petroleum tenements acquired or increased	Not applicable		





**Appendix 5B**

**Mining exploration entity and oil and gas exploration entity quarterly report**

**Issued and quoted securities at end of current quarter**

*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	<b>Preference *securities</b> <i>(description)</i>				
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3	<b>*Ordinary securities VXL / VXLAI</b>	186,681,979	153,865,337		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5	<b>*Convertible debt securities</b> <i>(description)</i>				
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				



7.7	<b>Options</b> <i>(description and conversion factor)</i>			<i>Exercise price</i>	<i>Expiry date</i>
	<b>VXLO / VXLAK</b>	68,449,188	52,199,188	25.00 cents	31 July 16
	<b>AXLAM</b> <b>(vested)</b>	3,500,000	-	25.00 cents	31 July 16
	<b>VXLAP</b> <b>(unvested)</b>	4,000,000	-	110.00 cents	31 July 17 <b>(KPI based)</b>
	<b>VXLAP</b> <b>(vested)</b>	1,500,000	-	110.00 cents	31 July 17
7.8	Issued during quarter				
	<b>VXLAP</b> <b>(unvested)</b>	4,000,000	-	110.00 cents	31 July 17 <b>(KPI based)</b>
	<b>VXLAP</b> <b>(vested)</b>	1,500,000	-	110.00 cents	31 July 17
7.9	Exercised during quarter				
7.10	Expired during quarter				
7.11	<b>Debentures</b> <i>(totals only)</i>	-	-		
7.12	<b>Unsecured notes</b> <i>(totals only)</i>	-	-		



## Compliance statement

- 1 This statement has been prepared under accounting policies, which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here: \_\_\_\_\_ Date: 30 April 2015

Company secretary

Print name: Jaroslaw (Jarek) Kopias

### Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements and petroleum tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement or petroleum tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities:** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards:** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.